



April 7, 2008

Ms. Stephanie Stumbo
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

RECEIVED
APR 08 2008
PUBLIC SERVICE
COMMISSION

RE: Grayson County Water District
Proposed Rate Increase-Case # 2008-00057

Dear Ms. Stumbo:

Please find enclosed the required documentation necessary for consideration of a rate increase on behalf of the Grayson County Water District.

Thank-you and we look forward to working with you on this process. If there are any questions, comments or you need additional information please feel free to contact me or Mr. Kevin Shaw, Manager of the Grayson County Water District.

CANN-TECH, LLC

Larry W. Cann
Project Manager

CC: Attorney General, Utility Intervention and Rate Division
Grayson County Water District

RECEIVED

APR 08 2008

PUBLIC SERVICE
COMMISSION

APPLICATION FOR INCREASE

FOR THE
GRAYSON COUNTY WATER DISTRICT
GRAYSON COUNTY, KENTUCKY

Prepared By:



1100 Glensboro Road
Park View Center, Suite 9
Lawrenceburg, Kentucky 40342
Phone (502) 859-0907
Fax (502) 859-0668
Cell (502) 859-6009
Email: waterboy@kih.net

APRIL 2008

Filing Requirement Index
Historical Test Period Rate Case

Filing Requirements	Filing Requirement Description	Location or Absence Reason
807 KAR 5:001 Section 8(1)	Full name and PO address of applicant and reference to the particular provision of law requiring PSC approval.	Application – Page No. 1
807 KAR 5:001 Section 8(2)	The original and 10 copies of application plus copy for anyone named as interested party.	The correct number of applications has been filed.
807 KAR 5:001 Section 10(1)(b)(1)	Reason adjustment is required	Application – Page No. 1
807 KAR 5:001 Section 10(1)(b)(2)	Statement that utility's annual reports, including the most recent calendar year, are filed with PSC. 807 KAR 5:006, Section 3(1)	Application – Page No. 2
807 KAR 5:001 Section 10(1)(b)(3) & (5)	If utility is incorporated, certified copy of articles of incorporation and amendments or out-of-state documents of similar import. If they have already been filed with PSC refer to the style and case number of the prior proceeding and file a certificate of good standing or authorization dated within 60 days of date application filed.	Grayson County is a water district.
807 KAR 5:001 Section 10(10)(b)(4) & (5)	If applicant is limited partnership, certified copy of limited partnership agreement. If agreement filed with PSC refer to style and case number of prior proceeding and file a certificate of good standing or authorization dated within 60 days of date application filled	NA. Grayson County is not a limited partnership.
807 KAR 5:001 Section 10(1)(b)(6)	Certified copy of certificate of assumed name required by KRS 3454.015 or statement that certificate not necessary.	NA. Grayson County Water District has never used an assumed name.
807 KAR 5:001 Section 10(10)(b)(7)	Proposed tariff in form complying with 807 KAR 5:011 effective not less than 30 days from date application filed.	Exhibit No. 1
807 KAR 5:001 Section 10(1)(b)(8)	Proposed tariff changes show by present and proposed tariffs in comparative form or by indicating additions in italics or by underscoring and striking over deletions in current tariff.	Exhibit No. 2
807 KAR 5:001 Section 10(1)(b)(9)	Statements that notice given, see subsections (3) and (4) of 807 KAR 5:001, Section 10 with copy.	Application – Page No. 2 Exhibit No. 3

Filing Requirement Index
Historical Test Period Rate Case

Filing Requirements	Filing Requirement Description	Location or Absence Reason
807 KAR 5:001 Section 10(2)	If gross annual revenues exceed \$1,000,000, written notice of intent filed at least 4 weeks prior to application. Notice shall state whether application will be supported by historical or fully forecasted test period.	This has been completed.
807 KAR 5:001 Section 10(6)(a)	Complete description and quantified explanation for proposed adjustments with support for changes in price or activity levels, and other factors affecting the adjustment.	Exhibit No. 4
807 KAR 5:001 Section 10(6)(b) & (c)	If gross annual revenues exceed \$1,000,000, prepared testimony of each witness who will support the application. If less than \$1,000,000, prepared testimony of each witness who will support application or statement that utility does not plan to submit prepared testimony.	Grayson County Water District does not intend to submit prepared testimony.
807 KAR 5:001 Section 10(6)(d)	Estimate of effect that new rate(s) will have on revenues including, at minimum, total revenues resulting from increase or decrease and percentage of increase or decrease.	Customer Notice – Exhibit No. 3 and application at Page 2.
807 KAR 5:001 Section 10(6)(e)	If electric, gas, water or sewer utility effect upon the average bill for each customer classification to which change will apply.	Exhibit No. 3
807 KAR 5:001 Section 10(6)(f)	If local exchange company, effect upon the average bill for 807 each customer class for change in basic local service.	NA. Grayson County Water District is a water district
807 KAR 5:001 Section 10(6)(g)	Analysis of customers' bills in such detail that revenues from present and proposed rates can be readily determined for each customer class.	Exhibit No. 5
807 KAR 5:001 Section 10(6)(h)	Summary of determination of revenue requirements based on return on net investment rate base, return on capitalization, interest coverage, debt service coverage, or operating ratio, with support schedules.	Exhibit No. 4
807 KAR 5:001 Section 10(6)(i)	Reconciliation of rate base and capital used to determine revenue requirements.	NA. Revenue requirement reflects debt service.

Filing Requirement Index
Historical Test Period Rate Case

Filing Requirements	Filing Requirement Description	Location or Absence Reason
807 KAR 5:001 Section 10(6)(j)	Current chart of accounts if more detailed than the Uniform System of Accounts.	NA
807 KAR 5:001 Section 10(6)(k)	Independent auditor's annual opinion report, with any written communication from auditor, which indicates existence of material weakness in internal controls. The most recent FERC or FCC audit reports.	The 2007 audit report is attached as Exhibit 6. NA. Grayson County is a water district.
807 KAR 5:001 Section 10(6)(l)	The most recent FERC Form 1 (electric), FERC Form 2 (gas), or Automated Reporting Management Information System Report (telephone) and PSC Form T (telephone).	NA. Grayson County is a water district.
807 KAR 5:001 Section 10(6)(n)	Summary of latest depreciation study with schedules by major plant accounts, except that telecommunications utilities adopting PSC's average depreciation rates shall provide schedule identifying current and test period depreciation rates used by major plant accounts. If filed in another PSC case refer to that case's number and style.	Exhibits No. 6 and 10. The audit report and annual report show depreciation schedules. There are no other studies of depreciation available to Grayson County Water District.
807 KAR 5:001 Section 10(6)(o)	List of all commercial or in-house computer software, programs, and models used to develop schedules and work papers association with the filing. Include each software, program, or model; what each was used for; its supplier; brief description and specifications for the computer hardware and the operating system required to run the program.	Excel Word
807 KAR 5:001 Section 10(6)(p)	Prospectuses of most recent stock or bond offerings.	NA. Grayson County is a water district.
807 KAR 5:001 Section 10(6)(q)	Annual report to shareholders, or members, and statistical supplements covering 2 years prior to application filing date.	NA. Grayson County is a water district.

Filing Requirement Index
Historical Test Period Rate Case

Filing Requirements	Filing Requirement Description	Location or Absence Reason
807 KAR 5:001 Section 10 (6)(r)	Monthly managerial reports providing financial results for 12 months in test period.	Exhibit No. 7 – reports for 2007 only.
807 KAR 5:001 Section 10(6)(s)	SEC's annual report for most recent 2 years, Form 10-Ks and any Form 8-Ks issued within past 2 years, and Form 10-Qs issued during the past 6 quarters updated as current information becomes available.	NA. Grayson County is a water district.
807 KAR 5:001 Section 10(6)(t)	<p>If utility had any amounts charged or allocated to it by affiliate or general or home office, or paid any monies to affiliate or general home office during test period or during previous 3 calendar years, file:</p> <ol style="list-style-type: none"> 1. Detailed description of method of calculation and amounts allocated or charged to utility or affiliate or general or home office for each charge allocation or payment. 2. Explanation of how allocator for the test period was determined; and 3. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during test period was reasonable; 	NA. There are no affiliate allocations.

Filing Requirement Index
Historical Test Period Rate Case

Filing Requirements	Filing Requirement Description	Location or Absence Reason
807 KAR 5:001 Section 10(6)(u)	If gas, electric or water utility, whose annual gross revenues exceed \$5,000,000, cost of service study based on methodology generally accepted in industry and based on current and reliable data from a single time period.	NA. Resources do not exceed \$5,000,000.
807 KAR 5:001 Section 10(6)(v)	Location exchange carriers with fewer than 50,000 access lines need not file cost of service studies, except as specifically directed by PSC. Local exchange carriers with more than 50,000 access lines shall file: 1. Jurisdictional separations study consistent with Park 36 of the FCC's rules and regulations; and 2. Service specific cost studies to support pricing of all services that generate annual revenue greater than \$1,000,000, except local exchange access: (a) Based on current and reliable data from a single time period; and (b) Using generally recognized fully allocated, embedded, or incremental cost principles.	NA. Grayson County is a water district.
807 KAR 5:001 Section 10(7)(a)	Detailed income statement and balance sheet reflecting impact of all proposed adjustments.	Exhibit NO. 6 and 10, annual report and audit report.
807 KAR 5:001 Section 10(7)(b)	Most recent capital construction budget containing at least period of time as proposed for any pro forma adjustment for plant additions.	NA. Grayson County Water District is not proposing any pro forma adjustment for plant additions.

Filing Requirement Index
Historical Test Period Rate Case

Filing Requirements	Filing Requirement Description	Location or Absence Reason
807 KAR 5:001 Section 10(7)(c)	<p>For each proposed pro forma adjustment reflecting plant additions the following information:</p> <ol style="list-style-type: none"> 1. Starting date of the construction of each major component of plant; 2. Proposed in-service date; 3. Total estimated cost of construction at completion; 4. Amount contained in construction work in progress at end of test period; 5. Complete description of actual plant retirements and anticipated plant retirements related to the pro forma plant additional including the actual or anticipated date of retirement. 6. Original cost, cost of removal and salvage for each component of plant to be retired during the period of the proposed pro forma adjustment for plant additions; 7. Explanation of any differences in amounts contained in the capital construction budget and amounts of capital construction cost contained in the pro forma adjustment period; and 8. Impact on depreciation expenses of all proposed pro forma adjustments for plant additions and retirements. 	NA. Grayson County Water District is not proposing any pro forma adjustment for plant additions.
807 KAR 5:001 Section 10 (7)(e)	Number of customers to be added to the test period – end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers.	Exhibit No. 9. Billing analysis for proposed rates.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE APPLICATION OF THE GRAYSON)
COUNTY WATER DISTRICT FOR APPROVAL)
OF A PROPOSED INCREASE IN RATES FOR) CASE NO. 2008-00057
WATER SERVICE, TO INCREASE NON-)
RECURRING CHARGES AND TO REVISE)
IT'S TARIFF)

STATEMENT OF NOTICE

Grayson County Water District ("Grayson County"), hereby petitions the Commission for approval of a proposed increase in its water rates and charges. In support of its application, Grayson County respectfully states as follows:

1. Grayson County is a non-profit water district. Grayson County's principal office place of business and mailing address is 113 South Lee Avenue, PO Box 217, Leitchfield, KY 42755.
2. Grayson County is engaged in the distribution and sale of water. It currently provides water service to approximately 6,120 retail customers. Grayson County also provides water to the City of Caneyville.
3. The proposed increase in rates and charges is necessary for Grayson County to meet its operating expenses, to maintain financial viability, to cover its debt service, and to continue to provide adequate service.
4. For the purpose of justifying the reasonableness of the proposed increase, Grayson County has utilized a historical test period consisting of twelve (12) consecutive calendar months ending December 31, 2007.
5. Grayson County's annual reports, including the annual report for 2007, are on file with the Public Service Commission as required by 807 KAR 5:006, Section 3(1).
6. Grayson County hereby gives notice to the Public Service Commission of the adjustment of its rates to those rates set forth in Exhibit No. 1 in the filing requirements. The proposed rates will become effective upon Commission approval, and should result in an increase in annual revenues to \$2,810,994.18, which is an increase of

\$183,897.00 or seven (7) percent over normalized revenues from water sales of \$2,627,097.00.

7. Grayson County has revised the portion of its tariff that reflects water rates to residential and commercial customers only. The proposed tariff (Exhibit No. 1) is shown in comparative form on the same sheets, side-by-side, and those comparative sheets are identified as Exhibit No. 2 in the filing requirements.

8. Grayson County has complied with 807 KAR 5:001, Section 9,(2) and 807 KAR 5:001, Section 10,(3) and (4) by delivering to newspapers of general circulation in its service area a copy of the Notice identified as Exhibit 3 in the filing requirements, for publishing once a week for three consecutive weeks in a prominent manner, the first of said publications to be made no later than seven (7) days after the date of application is filed with the Public Service Commission.

9. A copy of this filing has been mailed to the Utility Intervention and Rate Division of the Attorney General's Office of the Commonwealth of Kentucky.

10. As required by 807 KAR 5:001, Section 10, (4), (f) Grayson County will post a copy of its Customer Notice at its place of business on the same day the application is filed with the Public Service Commission, and it will remain posted until the Public Service Commission has determined Grayson County's rates.

11. The list of the documents filed in support of Grayson County's application for approval of the proposed adjustment of rates or the explanation for their absence is contained in the Filing Requirement Index.

WHEREFORE, the Applicant, Grayson County Water District requests that the Public Service Commission of Kentucky grant to the Applicant its proposal to increase its rates and charges as set forth in this Petition.

Dated at Leitchfield, Kentucky this April 4, 2008.

GRAYSON COUNTY WATER DISTRICT

By John R. Jones
Chairman

COMMONWEALTH OF KENTUCKY)
)SS
COUNTY OF GRAYSON)

The undersigned, being duly sworn, deposes and states he is the Chairman of the Grayson County Water District, Applicant, in the above proceedings; that he has read the foregoing Application and has noted the contents thereof; that the same is true of his own knowledge, except as to matters which are there in stated on information or belief, and as to those matters, he believes same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this April 4, 2008.

John R. Jones
Chairman
Grayson County Water District

Subscribed and sworn to before me by John R. Jones, Chairman of the Grayson County Water District, on this April 4, 2008.

My Commission expires May 17, 2009

Stanley A. Johnson
Notary Public
In and for said County and State

EXHIBIT 1

REVISED TARIFF

FOR Grayson County, Kentucky
Community, Town or City

P.S.C. KY. NO. 2008 - 00057

_____ SHEET NO. _____

Grayson County Water District
(Name of Utility)

CANCELLING P.S.C. KY NO. _____

_____ SHEET NO. _____

RATES AND CHARGES

A. Minimum Water Rates Based on Size Connections

<u>Size of Connection</u>	<u>Number of Gallons or Less of Water per Month to be Provided For the Minimum Rate</u>	<u>Minimum Rate</u>
5/8 x 3/4 inch	1,500	\$16.35
3/4 inch	3,000	27.96
1 inch	5,000	43.43
1 1/2 inch	10,000	82.11
2 inch	16,000	123.71
3 inch	30,000	220.78
4 inch	50,000	359.46
6 inch	100,000	666.01
8 inch	150,000	972.57
10 inch	250,000	1,507.57

B. Meter Rates for Water Usage in Addition to Minimum Charge

Subject to the minimum water rates specified above, the following metered charges shall be made for each 1,000 gallons of water consumption per month to customers of all connections.

5/8" x 3/4" Meters:

First	1,500 gallons	\$16.35 minimum bill
Next	8,500 gallons	7.74 per 1,000 per gallons
Next	40,000 gallons	6.93 per 1,000 per gallons
Next	100,000 gallons	6.13 per 1,000 per gallons
All Over	150,000 gallons	5.35 per 1,000 per gallons

FOR Grayson County, Kentucky
Community, Town or City

P.S.C. KY. NO. 2008 - 00057

_____ SHEET NO. _____

CANCELLING P.S.C. KY NO. _____

_____ SHEET NO. _____

Grayson County Water District
(Name of Utility)

3/4" Meters:

First	3,000 gallons	\$27.96 minimum bill
Next	7,000 gallons	7.74 per 1,000 gallons
Next	40,000 gallons	6.93 per 1,000 gallons
Next	100,000 gallons	6.13 per 1,000 gallons
All over	150,000 gallons	5.35 per 1,000 gallons

1" Meter:

First	5,000 gallons	\$43.43 minimum bill
Next	5,000 gallons	7.74 per 1,000 gallons
Next	40,000 gallons	6.93 per 1,000 gallons
Next	100,000 gallons	6.13 per 1,000 gallons
All over	150,000 gallons	5.35 per 1,000 gallons

1 1/2" Meter:

First	10,000 gallons	\$82.11 minimum bill
Next	40,000 gallons	6.93 per 1,000 gallons
Next	100,000 gallons	6.13 per 1,000 gallons
All Over	150,000 gallons	5.35 per 1,000 gallons

2" Meters:

First	16,000 gallons	\$123.71 minimum bill
Next	34,000 gallons	6.93 per 1,000 gallons
Next	100,000 gallons	6.13 per 1,000 gallons
All Over	150,000 gallons	5.35 per 1,000 gallons

3" Meters:

First	30,000 gallons	\$220.78 minimum bill
Next	20,000 gallons	6.93 per 1,000 gallons
Next	100,000 gallons	6.13 per 1,000 gallons
All over	150,000 gallons	5.35 per 1,000 gallons

FOR Grayson County, Kentucky
Community, Town or City

P.S.C. KY. NO. 2008 - 00057

_____ SHEET NO. _____

Grayson County Water District
(Name of Utility)

CANCELLING P.S.C. KY NO. _____

_____ SHEET NO. _____

4" Meter:

First	50,000 gallons	\$359.46 minimum bill
Next	100,000 gallons	6.13 per 1,000 gallons
Next	150,000 gallons	5.35 per 1,000 gallons

6" Meter:

First	100,000 gallons	\$666.01 minimum bill
Next	50,000 gallons	6.13 per 1,000 gallons
All Over	150,000 gallons	5.35 per 1,000 gallons

8" Meter:

First	150,000 gallons	\$972.57 minimum bill
All Over	150,000 gallons	5.35 per 1,000 gallons

10" Meter:

First	250,000 gallons	\$1,507.57 minimum bill
All Over	250,000 gallons	5.35 per 1,000 gallons

Date of Issue _____

Date Effective _____

Issued By _____

Title _____

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 2008-00057 DATED _____

EXHIBIT 2

COMPARISON OF PRESENT AND PROPOSED RATES

FOR Grayson County, Kentucky
Community, Town or City

P.S.C. KY. NO. 2008-0005-7

_____ SHEET NO. _____

Grayson County Water District
(Name of Utility)

CANCELLING P.S.C. KY NO. _____

_____ SHEET NO. _____

RATES AND CHARGES

Minimum Water Rates Based on Size Connections

<u>Size of Connection</u>	Number of Gallons or Less of Water per Month to be Provided <u>For the Minimum Rate</u>	Present <u>Minimum</u>	Proposed <u>Minimum</u>
5/8 x 3/4 inch	1,500	\$15.28	\$16.35
3/4 inch	3,000	26.13	27.96
1 inch	5,000	40.59	43.43
1 1/2 inch	10,000	76.74	82.11
2 inch	16,000	115.62	123.71
3 inch	30,000	206.34	220.78
4 inch	50,000	335.94	359.46
6 inch	100,000	522.44	666.01
8 inch	150,000	908.94	972.57
10 inch	250,000	1,408.94	1,507.57

Meter Rates for Water Usage in Addition to Minimum Charge

Subject to the minimum water rates specified above, the following metered charges shall be made for each 1,000 gallons of water consumption per month to customers of all connections.

FOR Grayson County, Kentucky
Community, Town or City

P.S.C. KY. NO. 2008 - 00057

_____ SHEET NO. _____

Grayson County Water District
(Name of Utility)

CANCELLING P.S.C. KY NO. _____

_____ SHEET NO. _____

	<u>Present</u>	<u>Proposed</u>
<u>5/8" x 3/4" Meters:</u>		
First 1,500 gallons	\$15.28 minimum bill	\$16.35 minimum bill
Next 8,500 gallons	7.23 per 1,000 gallons	7.74 per 1,000 gallons
Next 40,000 gallons	6.48 per 1,000 gallons	6.93 per 1,000 gallons
Next 100,000 gallons	5.73 per 1,000 gallons	6.13 per 1,000 gallons
All Over 150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons
<u>3/4" Meters:</u>		
First 3,000 gallons	\$26.13 minimum bill	\$27.96 minimum bill
Next 7,000 gallons	7.23 per 1,000 gallons	7.74 per 1,000 gallons
Next 40,000 gallons	6.48 per 1,000 gallons	6.93 per 1,000 gallons
Next 100,000 gallons	5.73 per 1,000 gallons	6.13 per 1,000 gallons
All over 150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons
<u>1" Meter:</u>		
First 5,000 gallons	\$40.59 minimum bill	\$43.43 minimum bill
Next 5,000 gallons	7.23 per 1,000 gallons	7.74 per 1,000 gallons
Next 40,000 gallons	6.48 per 1,000 gallons	6.93 per 1,000 gallons
Next 100,000 gallons	5.73 per 1,000 gallons	6.13 per 1,000 gallons
All over 150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons
<u>1 1/2" Meter:</u>		
First 10,000 gallons	\$76.74 minimum bill	\$82.11 minimum bill
Next 40,000 gallons	6.48 per 1,000 gallons	6.93 per 1,000 gallons
Next 100,000 gallons	5.73 per 1,000 gallons	6.13 per 1,000 gallons
All over 150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons

FOR Grayson County, Kentucky
Community, Town or City

P.S.C. KY. NO. 2008-00057

_____ SHEET NO. _____

Grayson County Water District
(Name of Utility)

CANCELLING P.S.C. KY NO. _____

_____ SHEET NO. _____

2" Meters:

First 16,000 gallons	\$115.62 minimum bill	\$123.71 minimum bill
Next 34,000 gallons	6.48 per 1,000 gallons	6.93 per 1,000 gallons
Next 100,000 gallons	5.73 per 1,000 gallons	6.13 per 1,000 gallons
All over 150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons

3" Meters:

First 30,000 gallons	\$206.34 minimum bill	\$220.78 minimum bill
Next 20,000 gallons	6.48 per 1,000 gallons	6.93 per 1,000 gallons
Next 100,000 gallons	5.73 per 1,000 gallons	6.13 per 1,000 gallons
All over 150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons

4" Meter:

First 50,000 gallons	\$335.94 minimum bill	\$359.46 minimum bill
Next 100,000 gallons	5.73 per 1,000 gallons	6.13 per 1,000 gallons
Next 150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons

6" Meter:

First 100,000 gallons	\$622.44 minimum bill	\$666.01 minimum bill
Next 50,000 gallons	5.73 per 1,000 gallons	6.13 per 1,000 gallons
All Over 150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons

8" Meter:

First 150,000 gallons	\$908.94 minimum bill	\$972.57 minimum bill
All Over 150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons

10" Meter:

First 250,000 gallons	\$1,408.94 minimum bill	\$1,507.57 minimum bill
All Over 250,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons

FOR Grayson County, Kentucky
Community, Town or City

P.S.C. KY. NO. 2008-00057

_____ SHEET NO. _____

Grayson County Water District
(Name of Utility)

CANCELLING P.S.C. KY NO. _____

_____ SHEET NO. _____

Date of Issue _____

Date Effective _____

Issued By _____

Title _____

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 2008-00057 DATED _____

EXHIBIT 3

CUSTOMER NOTICE

NOTICE

Grayson County Water District has filed an application with the Public Service Commission to increase its rates for water service by seven percent (7%). The current and proposed rates are as follows:

	<u>Current Rates</u>	<u>Proposed Rates</u>
<u>5/8" x 3/4" Meters:</u>		
First 1,500 gallons	\$15.28 minimum bill	\$16.35 minimum bill
Next 8,500 gallons	7.23 per 1,000 gallons	7.74 per 1,000 gallons
Next 40,000 gallons	6.48 per 1,000 gallons	6.93 per 1,000 gallons
Next 100,000 gallons	5.73 per 1,000 gallons	6.13 per 1,000 gallons
All Over 150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons
<u>3/4" Meters:</u>		
First 3,000 gallons	\$26.13 minimum bill	\$27.96 minimum bill
Next 7,000 gallons	7.23 per 1,000 gallons	7.74 per 1,000 gallons
Next 40,000 gallons	6.48 per 1,000 gallons	6.93 per 1,000 gallons
Next 100,000 gallons	5.73 per 1,000 gallons	6.13 per 1,000 gallons
All over 150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons
<u>1" Meter:</u>		
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All over 150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons
<u>1 1/2" Meter:</u>		
First 10,000 gallons	\$76.74 minimum bill	\$82.11 minimum bill
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First	50,000 gallons	\$335.94 minimum bill	\$359.46 minimum bill
Next	100,000 gallons	5.73 per 1,000 gallons	6.13 per 1,000 gallons
Next	150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons

6" Meter:

First	100,000 gallons	\$622.44 minimum bill	\$666.01 minimum bill
Next	50,000 gallons	5.73 per 1,000 gallons	6.13 per 1,000 gallons
All Over	150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons

8" Meter:

First	150,000 gallons	\$908.94 minimum bill	\$972.57 minimum bill
All Over	150,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons

10" Meter:

First	250,000 gallons	\$1,408.94 minimum bill	\$1,507.57 minimum bill
All Over	250,000 gallons	5.00 per 1,000 gallons	5.35 per 1,000 gallons

The rates contained in this notice are the rates proposed by Grayson County Water District. However, the Public Service Commission may order rates to be charged that are higher or lower than the rates proposed in this notice.

Any corporation, association, body politic, or person may request leave to intervene; by motion with thirty (30) days after notice of the proposed rate change is given. A motion to intervene shall be in writing, shall be submitted to the Executive Director, Public Service Commission, Post Office Box 615, Frankfort, KY 40602, and shall set forth the grounds for the motion, including the status and interest of the party movant. Copies of the application may be obtained at no charge from the Grayson County Water District at 113 South Lee Avenue, Leitchfield, KY 42755. Upon request from an intervenor, the District shall furnish to the intervenor a copy of the application and supporting documents.

EXHIBIT 4

REVENUES AND EXPENSES

GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	DECEMBER 31,	
	2007	2006
OPERATING REVENUES		
METERED SALES		
Residential	\$ 2,311,268	\$ 2,046,098
Commercial	386,777	342,528
Agriculture	45,843	3,611
Resale	83,592	81,161
TOTAL METERED SALES	2,827,480	2,473,398
FORFEITED DISCOUNTS	51,943	49,599
MISCELLANEOUS SERVICE REVENUE	129,309	121,259
TOTAL OPERATING REVENUES	3,008,732	2,644,256
 OPERATING EXPENSES		
PURCHASED WATER	315,716	244,123
SUPPLY AND PUMPING EXPENSE		
Purchased power	18,694	17,514
Materials and supplies	2,761	398
Insurance	8,716	9,889
Transportation	3,695	2,778
Miscellaneous	0	45
Contractual services	41,047	36,330
TOTAL SUPPLY AND PUMPING EXPENSE	74,913	66,954
WATER TREATMENT EXPENSE		
Purchased power	50,911	44,527
Materials and supplies	117,070	80,894
Insurance	8,716	10,099
Transportation	677	3,850
Miscellaneous	2,558	3,766
Contractual services	113,338	116,130
Professional services	12,827	14,686
TOTAL WATER TREATMENT EXPENSE	306,097	273,952
GENERAL DISTRIBUTION EXPENSE		
Materials and supplies	54,704	53,727
Insurance	8,716	9,889
Transportation	28,577	18,433
Miscellaneous	799	830
Contractual services	224,538	200,589
TOTAL GENERAL DISTRIBUTION EXPENSE	317,334	283,468

(CONTINUED)

Accompanying notes to the financial statements are an integral part of this statement.

GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	DECEMBER 31,	
	2007	2006
MAINTENANCE EXPENSE		
Transportation	\$ 4,174	\$ 1,991
Contractual services	136,822	120,549
Distribution	2,427	0
Services	3,506	0
Meters and hydrants	0	0
TOTAL MAINTENANCE EXPENSE	<u>146,929</u>	<u>122,540</u>
CUSTOMER ACCOUNTS EXPENSE		
Bad debt expense	6,041	30,634
Materials and supplies	60,311	45,427
Transportation	21,384	18,296
Miscellaneous	23,238	5,909
Contractual services	164,186	144,658
Customer records	75,240	72,088
TOTAL CUSTOMER ACCOUNTS EXPENSE	<u>350,400</u>	<u>317,012</u>
ADMINISTRATIVE AND GENERAL EXPENSE		
Materials and supplies	11,379	15,610
Insurance	9,788	10,469
Transportation	1,163	3,010
Miscellaneous	28,713	29,628
Contractual services	180,884	166,999
Professional services	11,835	14,315
TOTAL ADMINISTRATIVE AND GENERAL EXPENSE	<u>243,762</u>	<u>240,031</u>
AMORTIZATION EXPENSE	3,821	3,821
DEPRECIATION EXPENSE	532,088	534,176
TOTAL OPERATING EXPENSES	<u>2,291,060</u>	<u>2,086,077</u>
OPERATING INCOME (LOSS)	717,672	558,179
 NONOPERATING REVENUES (EXPENSES)		
Miscellaneous income	19,314	10,265
Interest income	33,383	17,164
Interest expense	(439,578)	(390,279)
PSC taxes	(4,511)	(3,888)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(391,392)</u>	<u>(366,738)</u>
 INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	326,280	191,441
 CAPITAL CONTRIBUTIONS		
Grant income	386,597	920,006
Contributions in aid of construction	(4,464)	(5,388)
TOTAL CAPITAL CONTRIBUTIONS	<u>382,133</u>	<u>914,618</u>
CHANGE IN NET ASSETS	708,413	1,106,059
TOTAL NET ASSETS – BEGINNING	9,773,301	8,667,242
TOTAL NET ASSETS – ENDING	<u>\$ 10,481,714</u>	<u>\$ 9,773,301</u>

(CONCLUDED)

Accompanying notes to the financial statements are an integral part of this statement.

EXHIBIT 5

TEST YEAR BILLING ANALYSIS

Proposed Water Rates w/ 7 % increase

Based on customer count 2007

RATE FACTOR 1.07 USAGE FACTOR 1.00

Residential				Increase
First 1,500 Gal. at				\$1.07
Next 8,500 Gal. at				
Next 40,000 Gal. at				
Next 100,000 Gal. at				
All Over 150,000 Gal. at				
Monthly Usage	Average Monthly Usage	No. of Bills	Usage (1000-Gal.)	Annual Income
From	To			
0	1,500	23502	10,992.64	384,248.30
1,500	10,000	45011	176,258.55	1,577,151.22
10,000	50,000	4076	53,657.37	424,091.06
50,000	150,000	146	7,852.57	55,867.63
150,000	999,999	19	2,750.32	17,945.36
TOTALS				2,459,303.57

Annual Residential Water Sales	\$2,298,414.55
Increased Annual Residential Water Sales	\$2,459,303.57
Total Increase \$160,889.02	
Avg. Bill	\$31.59
Incr. Avg. Bill	\$2.21

Non-Residential 3/4" meter				Increase
First 3,000 Gal. at				\$1.83
Next 7,000 Gal. at				
Next 40,000 Gal. at				
Next 100,000 Gal. at				
All Over 150,000 Gal. at				
Monthly Usage	Average Monthly Usage	No. of Bills	Usage (1000-Gal.)	Annual Income
From	To			
0	3,000	1	0.35	27.96
3,000	10,000	11	33.85	314.13
10,000	50,000	0	0.00	0.00
50,000	150,000	0	0.00	0.00
150,000	999,999	0	0.00	0.00
TOTALS				342.08

Annual Non Residential 3/4" Water Sales	\$319.71
Increased Annual Residential Water Sales	\$342.08
Total Increase \$22.37	
Avg. Bill	\$26.64
Incr. Avg. Bill	\$1.87

Proposed Water Rate w/ 7% increase

Based on customer count 2007

RATE FACTOR 1.07 USAGE FACTOR 1.00

Non-Residential 1.0" meter				Increase	
Monthly Usage		Average Monthly Usage	No. of Bills	Usage (1000-Gal.)	Annual Income
From	To				
		First 5,000 Gal. at	44	minimum	\$2.84
		Next 5,000 Gal. at	47	per Thousand Gallons.	
		Next 40,000 Gal. at	165	per Thousand Gallons.	
		Next 100,000 Gal. at	161	per Thousand Gallons.	
		All Over 150,000 Gal. at	35	per Thousand Gallons.	
0	5,000	543	46	24.96	1,997.84
5,000	10,000	4,476	131	586.30	5,158.03
10,000	50,000	19,308	165	3,185.78	24,196.93
50,000	150,000	59,858	30	1,795.74	12,596.89
150,000	500,000	181,470	31	5,625.56	35,368.79
TOTALS			403	11,218.34	79,318.47

Annual Non Residential 1.0 "Water Sales	\$74,129.41
Increased Annual Residential Water Sales	\$79,318.47
Total Increase	\$5,189.06
Avg. Bill	\$183.94
Incr. Avg. Bill	\$12.88

Non-Residential 1.5" meter

Non-Residential 1.5" meter				Increase	
Monthly Usage		Average Monthly	No. of Bills	Usage (1000-Gal.)	Annual Income
From	To				
		First 10,000 Gal. at	16	minimum	\$5.37
		Next 40,000 Gal. at	16	per Thousand Gallons.	
		Next 100,000 Gal. at	16	per Thousand Gallons.	
		All Over 150,000 Gal. at	8	per Thousand Gallons.	
0	10,000	3,600	1	3.60	82.11
10,000	50,000	24,081	16	385.30	2,875.93
50,000	150,000	48,550	2	97.10	701.13
150,000	500,000	304,881	16	4,878.10	28,818.89
500,000	999,999	693,575	8	5,548.60	31,045.54
TOTALS			43	10,912.70	63,523.60

Annual Non Residential 1.5 "Water Sales	\$59,367.85
Increased Annual Residential Water Sales	\$63,523.60
Total Increase	\$4,155.75
Avg. Bill	\$1,380.65
cr. Avg. Bi	\$96.64

Proposed Water Rate w/ 7 % increase

Based on customer count 2007

RATE FACTOR Multiplier USAGE FACTOR Multiplier

Non-Residential 2.0" meter *				Increase
First 16,000 Gal. at		minimum		\$8.09
Next 34,000 Gal. at		per Thousand Gallons.		
Next 100,000 Gal. at		per Thousand Gallons.		
All Over 150,000 Gal. at		per Thousand Gallons.		
Monthly Usage	Average Monthly Usage	No. of Bills	Usage (1000-Gal.)	Annual Income
From	To			
0	16,000	61	114.60	7,546.52
16,000	50,000	41	949.70	7,108.65
50,000	150,000	17	981.20	6,915.15
150,000	500,000	46	10,881.90	66,041.19
500,000	999,999	1	525.10	2,979.35
TOTALS		166	13,452.50	90,590.86

Annual Non Residential 2.0 "Water Sales	\$84,664.35
Increased Annual Residential Water Sales	\$90,590.86
Total Increase	\$5,926.51
Avg. Bill	\$510.03
Incr. Avg. Bill	\$35.70

Non-Residential 3.0" meter				Increase
First 30,000 Gal. at		minimum		\$14.44
Next 20,000 Gal. at		per Thousand Gallons.		
Next 100,000 Gal. at		per Thousand Gallons.		
All Over 150,000 Gal. at		per Thousand Gallons.		
Monthly Usage	Average Monthly Usage	No. of Bills	Usage (1000-Gal.)	Annual Income
From	To			
0	30,000	12	131.80	2,649.41
30,000	50,000	0	0.00	0.00
50,000	150,000	0	0.00	0.00
150,000	500,000	0	0.00	0.00
500,000	999,999	12	15,851.00	86,843.64
TOTALS		24	15,982.80	89,493.05

Annual Non Residential 3.0 "Water Sales	\$83,638.36
Increased Annual Residential Water Sales	\$89,493.05
Total Increase	\$5,854.69
Avg. Bill	\$3,484.93
Incr. Avg. Bi	\$243.95

Proposed Water Rate w/ 7 % increase

Based on customer count 2007

RATE FACTOR Multiplier USAGE FACTOR Multiplier

Non-Residential 4.0" meter				Increase
First 50,000 Gal. at		minimum		\$23.52
Next 100,000 Gal. at		per Thousand Gallons.		
All Over 150,000 Gal. at		per Thousand Gallons.		
Monthly Usage		Average Monthly Usage	No. of Bills	Annual Income
From	To			
0	50,000	27,222	9	3,235.10
50,000	150,000	67,000	11	5,100.53
150,000	500,000	135,000	4	3,569.26
500,000	999,999	0	0	0.00
		0	0	0.00
TOTALS				11,904.89

Annual Non Residential 4.0 "Water Sales	\$11,126.07
Increased Annual Residential Water Sales	\$11,904.89
Total Increase	\$778.82
Avg. Bill	\$463.59
Incr. Avg. Bill	\$32.45

Non-Residential 6.0" meter				Increase
First 100,000 Gal. at		minimum		\$43.57
Next 50,000 Gal. at		per Thousand Gallons.		
All Over 150,000 Gal. at		per Thousand Gallons.		
Monthly Usage		Average Monthly	No. of Bills	Annual Income
From	To			
0	100,000	16,762	21	13,986.23
100,000	150,000	129,000	3	2,531.44
150,000	500,000		0	0.00
500,000	999,999		0	0.00
			0	0.00
TOTALS				16,517.67

Annual Non Residential 6.0 "Water Sales	\$15,437.07
Increased Annual Residential Water Sales	\$16,517.66
Total Increase	\$1,080.59
Avg. Bill	\$643.21
cr. Avg. Bi	\$45.03

RATE/CLASS	GALLON RANGE	BILLS	REVENUE	GALLONS	AVERAGE REV
RATE 13	0 - 1,500	0	0.00	0	0.00
CLASS 91	1,501 - 5,000	1	76.74	5,600	76.74
	5,001 - 10,000	4	702.88	101,100	175.72
	10,001 - 100,000	2	648.14	87,100	324.87
	100,001 - 500,000	10	26,932.08	4,878,100	1,683.26
	500,001 - 999,999	0	35,014.52	5,546,000	3,626.82
		31	57,374.36	10,628,500	
RATE/CLASS	GALLON RANGE	BILLS	REVENUE	GALLONS	AVERAGE REV
RATE 14	0 - 1,500	27	3,121.74	11,100	115.62
CLASS 91	1,501 - 5,000	34	3,831.08	103,100	115.98
	5,001 - 10,000	41	8,879.45	919,700	167.79
	10,001 - 100,000	11	15,133.96	881,800	378.43
	100,001 - 500,000	10	61,629.65	10,861,900	1,339.73
	500,001 - 999,999	11	2,784.44	321,100	2,784.44
		116	84,789.32	19,652,800	
RATE/CLASS	GALLON RANGE	BILLS	REVENUE	GALLONS	AVERAGE REV
RATE 15	0 - 1,500	0	0.00	0	0.00
CLASS 91	1,501 - 5,000	2	112.68	5,600	201.34
	5,001 - 10,000	10	2,603.40	126,800	206.34
	10,001 - 100,000	0	0.00	0	0.00
	100,001 - 500,000	12	6,162.28	15,851,000	6,763.52
	500,001 - 999,999	24	97,698.36	15,922,800	
RATE/CLASS	GALLON RANGE	BILLS	REVENUE	GALLONS	AVERAGE REV
RATE 16	0 - 1,500	0	0.00	0	0.00
CLASS 91	1,501 - 5,000	3	3,623.46	245,000	336.94
	5,001 - 10,000	11	1,766.85	737,000	338.33
	10,001 - 100,000	4	3,286.12	546,000	821.53
	100,001 - 500,000	0	0.00	0	0.00
	500,001 - 999,999	24	11,076.43	1,522,000	

RATE/CLASS	GALLON RANGE	BILLS	REVENUE	GALLONS	AVERAGE REV
RATE 12	0 - 1,500	12	487.08	100	40.59
CLASS 90	1,501 - 8,000	56	2,456.57	281,560	45.65
	8,001 - 40,000	36	5,007.17	707,130	139.09
	40,001 - 100,000	3	948.72	140,880	316.23
	100,001 - 500,000	13	15,268.21	2,658,250	1,174.48
	500,001 - 999,999	0	0.00	0	0.00
			24,267.75	3,788,000	
RATE/CLASS	GALLON RANGE	BILLS	REVENUE	GALLONS	AVERAGE REV
RATE 12	0 - 1,500	30	1,217.70	22,610	40.59
CLASS 90	1,501 - 8,000	70	3,038.74	264,670	43.41
	8,001 - 40,000	103	13,092.70	1,810,910	127.11
	40,001 - 100,000	7	2,824.28	1,494,840	403.47
	100,001 - 500,000	1	673.90	108,980	673.90
	500,001 - 999,999	0	0.00	0	0.00
			20,847.32	3,681,780	
RATE/CLASS	GALLON RANGE	BILLS	REVENUE	GALLONS	AVERAGE REV
RATE 12	0 - 1,500	4	162.36	2,250	40.59
CLASS 90	1,501 - 8,000	5	216.11	19,970	43.22
	8,001 - 40,000	26	4,507.19	64,740	173.58
	40,001 - 100,000	1	244.42	1,820,250	97.22
	100,001 - 500,000	17	16,856.31	2,858,350	992.14
	500,001 - 999,999	0	0.00	0	0.00
			23,086.39	4,748,560	
RATE/CLASS	GALLON RANGE	BILLS	REVENUE	GALLONS	AVERAGE REV
RATE 13	0 - 1,500	0	0.00	0	0.00
CLASS 90	1,501 - 8,000	0	0.00	0	0.00
	8,001 - 40,000	12	1,984.51	284,200	165.41
	40,001 - 100,000	0	0.00	0	0.00
	100,001 - 500,000	0	0.00	0	0.00
	500,001 - 999,999	0	0.00	0	0.00
			1,984.51	284,200	

RATE/CLASS	GALLON RANGE	BILLS	REVENUE	GALLONS	AVERAGE REV
RATE 10	0 - 1,500	21,619	330,327.64	10,172,260	15.28
CLASS 90	1,501 - 8,500	49,901	498,348.81	172,842,550	32.76
	8,501 - 40,000	3,711	31,961.09	47,014,262	94.84
	40,001 - 100,000	92	91,072.40	4,118,400	931.00
	100,001 - 500,000	11	5,503.92	1,365,010	854.54
	500,001 - 999,999	0	0.00	0	0.00
		69,334	2,161,519.86	896,332,312	
RATE/CLASS	GALLON RANGE	BILLS	REVENUE	GALLONS	AVERAGE REV
RATE 10	0 - 1,500	1,732	26,770.56	774,000	15.28
CLASS 91	1,501 - 8,500	243	30,211.41	3,600,390	32.04
	8,501 - 40,000	280	31,975.59	4,424,325	114.20
	40,001 - 100,000	27	3,890.10	1,313,300	395.60
	100,001 - 500,000	1	3,240.88	1,539,990	810.22
	500,001 - 999,999	0	0.00	0	0.00
		2,004	103,088.54	10,664,005	
RATE/CLASS	GALLON RANGE	BILLS	REVENUE	GALLONS	AVERAGE REV
RATE 10	0 - 1,500	131	2,601.66	46,360	15.28
CLASS 92	1,501 - 8,500	167	5,189.89	615,510	31.98
	8,501 - 40,000	85	11,100.85	1,508,200	130.67
	40,001 - 100,000	39	10,658.07	1,047,760	367.86
	100,001 - 500,000	4	3,741.05	625,730	936.77
	500,001 - 999,999	0	0.00	0	0.00
		216	33,291.55	4,647,560	
RATE/CLASS	GALLON RANGE	BILLS	REVENUE	GALLONS	AVERAGE REV
RATE 11	0 - 1,500	1	26.13	350	26.13
CLASS 93	1,501 - 8,500	1	320.40	33,850	29.13
	8,501 - 40,000	0	0.00	0	0.00
	40,001 - 100,000	0	0.00	0	0.00
	100,001 - 500,000	0	0.00	0	0.00
	500,001 - 999,999	0	0.00	0	0.00
		1	346.53	34,200	

RATE/CLASS	GALLON RANGE	BILLS	REVENUE	GALLONS	AVERAGE REV
RATE 17	0 - 1,500	12	7,469.28	0	622.44
CLASS 91	1,501 - 3,000	0	0.00	0	0.00
	3,001 - 4,500	3	3,112.20	86,000	622.44
	4,501 - 6,000	4	2,489.76	372,000	622.44
	6,001 - 7,500	3	2,355.63	387,000	788.61
	7,501 - 9,000	0	0.00	0	0.00
	9,001 - 10,500	0	0.00	0	0.00
	10,501 - 12,000	24	15,437.07	739,000	622.44
	12,001 - 13,500	0	0.00	0	0.00
	13,501 - 15,000	0	0.00	0	0.00
	15,001 - 16,500	0	0.00	0	0.00
	16,501 - 18,000	0	0.00	0	0.00
	18,001 - 19,500	0	0.00	0	0.00
	19,501 - 21,000	36	11,811.22	45,261,200	622.44
	21,001 - 22,500	0	0.00	0	0.00
	22,501 - 24,000	0	0.00	0	0.00
	24,001 - 25,500	0	0.00	0	0.00
	25,501 - 27,000	0	0.00	0	0.00
	27,001 - 28,500	0	0.00	0	0.00
	28,501 - 30,000	0	0.00	0	0.00
	30,001 - 31,500	0	0.00	0	0.00
	31,501 - 33,000	0	0.00	0	0.00
	33,001 - 34,500	0	0.00	0	0.00
	34,501 - 36,000	0	0.00	0	0.00
	36,001 - 37,500	0	0.00	0	0.00
	37,501 - 39,000	0	0.00	0	0.00
	39,001 - 40,500	0	0.00	0	0.00
	40,501 - 42,000	0	0.00	0	0.00
	42,001 - 43,500	0	0.00	0	0.00
	43,501 - 45,000	0	0.00	0	0.00
	45,001 - 46,500	0	0.00	0	0.00
	46,501 - 48,000	0	0.00	0	0.00
	48,001 - 49,500	0	0.00	0	0.00
	49,501 - 51,000	0	0.00	0	0.00
	51,001 - 52,500	0	0.00	0	0.00
	52,501 - 54,000	0	0.00	0	0.00
	54,001 - 55,500	0	0.00	0	0.00
	55,501 - 57,000	0	0.00	0	0.00
	57,001 - 58,500	0	0.00	0	0.00
	58,501 - 60,000	0	0.00	0	0.00
	60,001 - 61,500	0	0.00	0	0.00
	61,501 - 63,000	0	0.00	0	0.00
	63,001 - 64,500	0	0.00	0	0.00
	64,501 - 66,000	0	0.00	0	0.00
	66,001 - 67,500	0	0.00	0	0.00
	67,501 - 69,000	0	0.00	0	0.00
	69,001 - 70,500	0	0.00	0	0.00
	70,501 - 72,000	0	0.00	0	0.00
	72,001 - 73,500	0	0.00	0	0.00
	73,501 - 75,000	0	0.00	0	0.00
	75,001 - 76,500	0	0.00	0	0.00
	76,501 - 78,000	0	0.00	0	0.00
	78,001 - 79,500	0	0.00	0	0.00
	79,501 - 81,000	0	0.00	0	0.00
	81,001 - 82,500	0	0.00	0	0.00
	82,501 - 84,000	0	0.00	0	0.00
	84,001 - 85,500	0	0.00	0	0.00
	85,501 - 87,000	0	0.00	0	0.00
	87,001 - 88,500	0	0.00	0	0.00
	88,501 - 90,000	0	0.00	0	0.00
	90,001 - 91,500	0	0.00	0	0.00
	91,501 - 93,000	0	0.00	0	0.00
	93,001 - 94,500	0	0.00	0	0.00
	94,501 - 96,000	0	0.00	0	0.00
	96,001 - 97,500	0	0.00	0	0.00
	97,501 - 99,000	0	0.00	0	0.00
	99,001 - 100,000	0	0.00	0	0.00

EXHIBIT 6
AUDIT REPORT

GRAYSON COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

**GRAYSON COUNTY WATER DISTRICT
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Grayson County Water District
Leitchfield, KY 42754

We have audited the accompanying financial statements of the business-type activities of the Grayson County Water District as of and for the years ended December 31, 2007 and 2006, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Grayson County Water District, as of December 31, 2007 and 2006, and the respective changes in financial position and cash flows, thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards and OMB Circular A-133, we have issued our report dated March 19, 2008, on our consideration of the Grayson County Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance

with Government Auditing Standards and OMB Circular A-133 and important for assessing the results of our audit.

The Grayson County Water District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming an opinion on the business-type activities financial statements that comprise the Grayson County Water District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required for U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of the Grayson County Water District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Buckles, Travis & Sloan
Certified Public Accountants
March 19, 2008

**GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2007 AND 2006**

	DECEMBER 31,	
	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Operation and maintenance	\$ 5,342	\$ 5,738
Revenue	19,894	22,417
Depreciation	0	182
Accounts receivable		
Customer accounts receivable, net of allowance for uncollectibles of \$73,267 and \$68,074	90,567	74,149
Accounts receivable – WRECC	43,475	41,115
Unbilled revenue	145,329	111,954
Prepaid insurance	17,073	17,552
Inventory	175,151	114,389
TOTAL CURRENT ASSETS	496,831	387,496
NON-CURRENT ASSETS		
Restricted cash and cash equivalents		
Bond and note sinking funds	536,242	343,729
Depreciation fund	511,801	380,007
Special projects	1,490	25,630
Note receivable – City of Leitchfield	83,266	88,009
Capital assets		
Land and land rights	231,635	189,436
Construction in progress	646,774	2,757,365
Utility plant and lines	25,133,129	22,594,148
Utility equipment and other	590,772	516,436
Less: Accumulated depreciation	(5,394,265)	(4,862,176)
TOTAL NON-CURRENT ASSETS	22,340,844	22,032,584
TOTAL ASSETS	\$ 22,837,675	\$ 22,420,080

(CONTINUED)

	DECEMBER 31,	
	<u>2007</u>	<u>2006</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 52,976	\$ 33,398
Accounts payable - WRECC	135,314	135,378
School and sales taxes payable	7,062	6,833
Interest payable from restricted assets	193,303	66,775
Interest payable – Customer deposits	607	3,868
Customer deposits	51,034	78,583
Current portion of long-term debt	444,521	1,760,101
TOTAL CURRENT LIABILITIES	<u>884,817</u>	<u>2,084,936</u>
NON-CURRENT LIABILITIES		
Bonds and loans payable	11,988,270	12,398,370
Less: Bond issue costs, net of amortization of \$11,463 and \$7,642	(72,605)	(76,426)
Less: Current portion of long-term debt	(444,521)	(1,760,101)
TOTAL NON-CURRENT LIABILITIES	<u>11,471,144</u>	<u>10,561,843</u>
TOTAL LIABILITIES	<u>12,355,961</u>	<u>12,646,779</u>
NET ASSETS		
Invested in capital assets, net of related debt	9,292,380	8,873,265
Restricted for debt service	536,242	343,729
Restricted for depreciation reserves	511,801	380,007
Restricted for special projects	1,490	25,630
Unrestricted	139,801	150,670
TOTAL NET ASSETS	<u>10,481,714</u>	<u>9,773,301</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,837,675</u>	<u>\$ 22,420,080</u>

Accompanying notes to the financial statements are an integral part of this statement.

**GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	DECEMBER 31,	
	2007	2006
OPERATING REVENUES		
METERED SALES		
Residential	\$ 2,311,268	\$ 2,046,098
Commercial	386,777	342,528
Agriculture	45,843	3,611
Resale	83,592	81,161
TOTAL METERED SALES	2,827,480	2,473,398
FORFEITED DISCOUNTS	51,943	49,599
MISCELLANEOUS SERVICE REVENUE	129,309	121,259
TOTAL OPERATING REVENUES	3,008,732	2,644,256
 OPERATING EXPENSES		
PURCHASED WATER	315,716	244,123
SUPPLY AND PUMPING EXPENSE		
Purchased power	18,694	17,514
Materials and supplies	2,761	398
Insurance	8,716	9,889
Transportation	3,695	2,778
Miscellaneous	0	45
Contractual services	41,047	36,330
TOTAL SUPPLY AND PUMPING EXPENSE	74,913	66,954
WATER TREATMENT EXPENSE		
Purchased power	50,911	44,527
Materials and supplies	117,070	80,894
Insurance	8,716	10,099
Transportation	677	3,850
Miscellaneous	2,558	3,766
Contractual services	113,338	116,130
Professional services	12,827	14,686
TOTAL WATER TREATMENT EXPENSE	306,097	273,952
GENERAL DISTRIBUTION EXPENSE		
Materials and supplies	54,704	53,727
Insurance	8,716	9,889
Transportation	28,577	18,433
Miscellaneous	799	830
Contractual services	224,538	200,589
TOTAL GENERAL DISTRIBUTION EXPENSE	317,334	283,468

(CONTINUED)

Accompanying notes to the financial statements are an integral part of this statement.

GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	DECEMBER 31,	
	2007	2006
MAINTENANCE EXPENSE		
Transportation	\$ 4,174	\$ 1,991
Contractual services	136,822	120,549
Distribution	2,427	0
Services	3,506	0
Meters and hydrants	0	0
TOTAL MAINTENANCE EXPENSE	146,929	122,540
CUSTOMER ACCOUNTS EXPENSE		
Bad debt expense	6,041	30,634
Materials and supplies	60,311	45,427
Transportation	21,384	18,296
Miscellaneous	23,238	5,909
Contractual services	164,186	144,658
Customer records	75,240	72,088
TOTAL CUSTOMER ACCOUNTS EXPENSE	350,400	317,012
ADMINISTRATIVE AND GENERAL EXPENSE		
Materials and supplies	11,379	15,610
Insurance	9,788	10,469
Transportation	1,163	3,010
Miscellaneous	28,713	29,628
Contractual services	180,884	166,999
Professional services	11,835	14,315
TOTAL ADMINISTRATIVE AND GENERAL EXPENSE	243,762	240,031
AMORTIZATION EXPENSE	3,821	3,821
DEPRECIATION EXPENSE	532,088	534,176
TOTAL OPERATING EXPENSES	2,291,060	2,086,077
OPERATING INCOME (LOSS)	717,672	558,179
 NONOPERATING REVENUES (EXPENSES)		
Miscellaneous income	19,314	10,265
Interest income	33,383	17,164
Interest expense	(439,578)	(390,279)
PSC taxes	(4,511)	(3,888)
TOTAL NONOPERATING REVENUES (EXPENSES)	(391,392)	(366,738)
 INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	326,280	191,441
 CAPITAL CONTRIBUTIONS		
Grant income	386,597	920,006
Contributions in aid of construction	(4,464)	(5,388)
TOTAL CAPITAL CONTRIBUTIONS	382,133	914,618
CHANGE IN NET ASSETS	708,413	1,106,059
TOTAL NET ASSETS – BEGINNING	9,773,301	8,667,242
TOTAL NET ASSETS – ENDING	\$ 10,481,714	\$ 9,773,301

(CONCLUDED)

Accompanying notes to the financial statements are an integral part of this statement.

**GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	DECEMBER 31,	
	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,956,579	\$ 2,659,084
Payments to suppliers	(929,957)	(781,651)
Payments for contractual services	(865,963)	(749,214)
Other receipts (payments)	(31,831)	(32,637)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,128,828</u>	<u>1,095,582</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	0	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grant proceeds	386,597	920,006
Proceeds from capital debt	1,350,000	900,700
Principal repayment of capital debt	(1,760,100)	(482,170)
Capital contributions	(4,464)	(5,388)
Purchases of capital assets	(544,924)	(2,082,067)
Miscellaneous income	19,314	10,265
Interest paid on capital debt	(439,578)	(390,279)
Increase (decrease) in interest payable – Customer deposits	(3,261)	0
Increase (decrease) in interest payable from restricted assets	126,528	(107,713)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(869,888)</u>	<u>(1,236,646)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	33,383	17,164
Decrease in note receivable – City of Leitchfield	4,743	0
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>38,126</u>	<u>17,164</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	297,066	(123,900)
BALANCES – BEGINNING OF YEAR	<u>777,703</u>	<u>901,603</u>
BALANCES – END OF YEAR	<u>\$ 1,074,769</u>	<u>\$ 777,703</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 717,672	\$ 558,179
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	532,088	534,176
Amortization expense	3,821	3,821
Payment of PSC taxes	(4,511)	(3,888)
Changes in assets and liabilities:		
Net (increase) decrease in accounts receivable	(18,778)	22,595
Net (increase) decrease in unbilled revenue	(33,375)	(7,767)
Net (increase) decrease in prepaid insurance	479	(7,215)
Net (increase) decrease in inventory	(60,762)	(11,611)
Net increase (decrease) in accounts payable	19,514	36,041
Net increase (decrease) in school and sales taxes payable	229	466
Net increase (decrease) in customer deposits	(27,549)	(29,215)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,128,828</u>	<u>\$ 1,095,582</u>

Accompanying notes to the financial statements are an integral part of this statement.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Grayson County Water District is a tax-exempt division of county government organized under KRS 74.010. The District provides a municipal water system to citizens located in the geographic area of the system. The District has contracted with Warren Rural Electric Cooperative Corporation the following services: billings, collections, office rental, equipment rental, and related staff expenditures.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

1. The Reporting Entity

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established by GAAP and used by the District are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The District elected to implement the general provisions in the year beginning January 1, 2003.

2. Basic Financial Statements – Proprietary Fund Financial Statements

The District's basic financial statements include only proprietary fund financial statements because the District engages only in a single business-type activity.

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are similar to those businesses in the private sector. Amounts recorded as operating revenues are those revenues generated from general water service operations, all other revenues are recorded as non-operating revenues or capital contributions. The District first applies unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrual

The proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

4. Cash and Cash Equivalents

The District has defined cash and cash equivalents to include all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. All investments of the District are certificates of deposit.

5. Inventory

Inventory of materials consist of expendable supplies held for use and are stated at the lower of cost or market using the FIFO (first-in, first-out) method.

6. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. Capital Assets

Capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful life of the asset. An estimated useful life of fifty years is used for substantially all plant assets. Estimated useful lives for other machinery and equipment ranges from five to ten years. Upon retirement, the cost of the asset, less any proceeds, is charged to accumulated depreciation.

The District capitalizes construction period interest on loans that were obtained to finance construction.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

The District has an ongoing activity of assessing the feasibility of installing additional lines to new service areas. Once an extension is considered feasible, there are additional engineering studies, applications to various funding agencies, and project administrative costs. The District defers the ongoing activity and capitalizes these costs upon completion of the project. These procedures are based on the reasonable expectation that the Public Service Commission of the Commonwealth of Kentucky will allow recovery of these costs through their inclusion in future rate increases.

8. Nonexchange Transactions

The recognition of assets and revenues resulting in nonexchange transactions of the District are as follows:

- a. Voluntary nonexchange transactions – The District receives various grants from federal and state agencies. Eligibility requirements have been met at the time the funds are received; therefore, the asset/revenue is recognized when it is received.

NOTE B – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's cash and investments was \$1,074,769 and the bank balance was \$1,170,220. Of the total bank balance, \$300,000 was covered by federal depository insurance, \$235,721 was invested in 100% federally guaranteed securities and the remaining balance of \$634,499 was considered uncollateralized. As of December 31, 2007, \$1,370,110 was pledged with securities held by the pledging banks' trust departments but not in the name of the District.

Kentucky Revised Statute 66.480 provides for investment of governmental funds into certain investment types including obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

NOTE C – RESTRICTED CASH

The sinking fund is restricted to the payment of principal and interest on long-term debt.

The depreciation fund is restricted to payment for improvements and approved repairs.

The special project fund is restricted to construction to expand service to additional customers or facilities improvement. The subscribers' payments plus interest at five percent annually must be refunded should they not be reached with water service or the project not be constructed. Interest earned on these funds is credited against the Construction in Progress account.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006**

NOTE D – CONTRIBUTIONS IN AID OF CONSTRUCTION

These revenue amounts were obtained from placement of meters at previously unsubscribed locations and from governmental grants.

NOTE E – LONG-TERM DEBT

The following bonds and loans were issued through USDA, Rural Development (RD):

<u>Original Amount</u>	<u>Funding Agency</u>	<u>Series Of</u>	<u>Interest Rate</u>	<u>Balance as of Dec. 31,</u>	
				<u>2007</u>	<u>2006</u>
\$1,998,000	RD	1995	4.5%	\$1,709,000	\$1,709,000
1,500,000	RD	1997	4.5%	1,331,000	1,331,000
1,000,000	RD	2000	4.5%	931,000	931,000
1,350,000	RD	2005	4.125%	1,350,000	0
567,000	RD Loan	2002	4.25%	548,500	548,500

These bonds are secured by an exclusive pledge of a fixed portion of the income and revenues derived from the operation of the District's water distribution system and each has principal and interest sinking fund requirements.

On September 25, 2002 the District received a loan from the Kentucky Rural Water Finance Corporation in the amount of \$364,000. This loan was received as part of a 2001D series multimodal public project revenue bond. This loan bears interest at a declining rate with an average of 4.3% and is secured by the revenues of the water system. This loan also has principal and interest sinking fund requirements. As of December 31, 2007 the loan balance was \$231,000.

During 2002, the District had received approval for a Kentucky Infrastructure Authority (KIA) Project Loan not to exceed \$4,000,000. As of December 31, 2007, total draws of \$3,930,850 had been accumulated. This loan bears interest at a rate of 1.8% and is secured by the revenues of the water system. The balance outstanding on this loan as of year end was \$3,076,015. An annual deposit of \$49,000 is required to be deposited into a reserve account. The annual deposits are to be made until the balance reaches \$490,000. As of December 31, 2007 the reserve balance was \$209,223.

During 2004, the District received a loan from Kentucky Rural Water Finance Corporation in the amount of \$3,136,000. This loan was received as part of a 2004B series revenue bond. This loan bears interest at an increasing rate with an average of 3.7% and is secured by revenues of the water system. This loan also has principal and interest sinking fund requirements. The proceeds of this loan were used to satisfy amounts outstanding on previously issued RD bonds. As of December 31, 2007 the loan balance was \$2,779,000.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006**

NOTE E – LONG-TERM DEBT (CONTINUED)

During 2005, the District received approval for an interim loan from Kentucky Rural Water Finance Corporation not to exceed \$1,350,000. This interim loan will convert to permanent financing through RD upon project completion. This loan bears interest at a variable rate and is secured by revenues of the water system. As of December 31, 2006, total draws of \$1,350,000 had been accumulated. The 2005 series bond was issued through RD in February 2007. Total amounts outstanding at year end were \$1,350,000.

During 2005, the District received a loan from Leitchfield Deposit Bank. This loan requires monthly payments of \$1,229.85, bears interest at a rate of 4.1%, is secured by equipment, and matures in April, 2010.

Current year long-term debt activity is as follows:

Description	Beginning Balance	Increases	Decreases	Ending Balance
Rural Development Bond, 1995	\$ 1,709,000	\$ 0	\$ 0	\$ 1,709,000
Rural Development Bond, 1997	1,331,000	0	0	1,331,000
Rural Development Bond, 2000	931,000	0	0	931,000
Rural Development Loan, 2002	548,500	0	0	548,500
Rural Development Bond, 2005	0	1,350,000	0	1,350,000
Kentucky Infrastructure Authority Loan	3,253,163	0	177,148	3,076,015
Kentucky Rural Water Loan	265,000	0	34,000	231,000
Kentucky Rural Water Loan	2,899,000	0	120,000	2,779,000
Kentucky Rural Water Loan – Interim	1,416,903	0	1,416,903	0
Leitchfield Deposit Bank Loan	44,804	0	12,049	32,755
	<u>\$12,398,370</u>	<u>\$1,350,000</u>	<u>\$1,760,100</u>	<u>\$11,988,270</u>

Principal of various amounts are due at least annually in each of the years through 2045. The principal due for each of the next five years and thereafter is as follows:

Year	Amount
2008	\$ 444,521
2009	455,853
2010	463,279
2011	473,812
2012	486,754
2013-2017	2,380,100
2018-2022	2,573,952
2023-2027	1,703,000
2028-2032	1,204,500
2033-2037	1,065,000
2038-2042	531,000
2043-2045	206,499
	<u>\$11,988,270</u>

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006**

NOTE E – LONG-TERM DEBT (CONCLUDED)

Principal and interest requirements for the next five years are as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 928,734
2009	926,918
2010	920,427
2011	916,247
2012	913,434
2013-2017	4,272,150
2018-2022	4,054,477
2023-2027	2,752,539
2028-2032	1,900,317
2033-2037	1,445,907
2038-2042	697,674
2043-2045	232,408
	<u>\$19,961,232</u>

NOTE F – CONCENTRATIONS OF CREDIT RISK

The District extends credit to all citizens who live within the geographic location of the District and who utilize the utility system. Credit losses may be minimal and are generally within management's expectations.

NOTE G – ACCOUNTS RECEIVABLE

Customer accounts receivable are shown net of an allowance for uncollectible accounts. At December 31, 2007 and 2006 total customer accounts receivable was \$163,834 and \$142,223, respectively. Allowance for uncollectible accounts was \$73,267 and \$68,074, respectively as of December 31, 2007 and 2006.

Customer accounts receivable amounts arise from monthly water usage. Based on District policy, water meters are read monthly, with billings occurring five to ten days subsequent to the reading. Once billed the customer has fourteen days to pay the amount due. If payment is made after the due date a late fee of 10% is assessed to water charges. A twenty-four hour grace period is allowed and if amounts remain unpaid, delinquent notices are sent out. Customers are given fourteen days from the date of the delinquent notice to render payment. The day following expiration of the delinquent period, collection trips are made for all bills in excess of forty dollars. If collection does not occur the meter is shut off. The customer will remain active for seven additional days, if at the expiration of the seven days payment has not been made, the account will become inactive and the customer deposit held will be applied to amounts owed. If collection is considered unlikely the balances are charged off as bad debt expense in the period in which they were deemed uncollectible.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006**

NOTE G – ACCOUNTS RECEIVABLE (CONCLUDED)

Management's periodic evaluation of the adequacy of the allowance for uncollectible accounts is based on past loss experience, known and other risks inherent to the specific account, adverse situations that may affect the customer's ability to render payment and current economic conditions. Management considers many factors in determining whether a receivable is impaired, such as payment history and changes in employment.

NOTE H – CAPITAL ASSETS

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Capital assets not being depreciated				
Land and land rights	\$ 189,436	\$ 42,199	\$ 0	\$ 231,635
Construction in progress	2,757,365	0	2,110,591	646,774
Total capital assets not being depreciated	2,946,801	42,199	2,110,591	878,409
Other capital assets				
Utility plant and lines	22,594,148	2,538,981	0	25,133,129
Utility equipment and other	516,436	74,336	0	590,772
Total other capital assets at historical cost	23,110,584	2,613,317	0	25,723,901
Less: Accumulated depreciation	(4,862,176)	(532,089)	0	(5,394,265)
Capital assets, net	<u>\$ 21,195,209</u>	<u>\$ 2,123,427</u>	<u>\$ 2,110,591</u>	<u>\$21,208,045</u>

NOTE I – RELATED PARTIES

The District contracts with Warren Rural Electric Cooperative Corporation (WRECC) for the following services: billing, collections, office rental, equipment rental, and staff related expenditures. The following related party amounts are reflected in the financial statements for December 31, 2007 and 2006.

	<u>DECEMBER 31,</u>	
	<u>2007</u>	<u>2006</u>
Amounts paid to WRECC for general operations	\$ 891,270	\$ 811,892
Amounts paid to WRECC for purchased power	20,971	18,510
Amounts included in accounts payable at year end	135,314	135,378
Amounts included in accounts receivable – WRECC at year end	43,475	41,115

The service agreement between WRECC and the District originated on August 16, 2004 and has a term of thirty years. Due to the variations in services rendered and actual costs at that date a minimal payment amount cannot be reasonably determined.

NOTE J – RISKS OF LOSS

The District's risk of loss are addressed by the purchase of commercial insurance. These areas include employee dishonesty bonds, property coverage, vehicle coverage, and a public entity liability policy which includes errors and omission. Coverage is reviewed for adequacy by management and agents on an annual basis.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2007 AND 2006**

NOTE K – NOTE RECEIVABLE – CITY OF LEITCHFIELD

During 2006, the District sold water lines and appurtenances to the Leitchfield Utilities Commission. The balance outstanding of \$83,266 is shown as a note receivable on the balance sheet. The note bears interest at a rate of 4.5% per annum and shall be paid to the District over a period of fifteen years in annual installments of \$8,139. The note will mature in July, 2021.

SUPPLEMENTARY INFORMATION

**GRAYSON COUNTY WATER DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2007
 (SEE INDEPENDENT AUDITORS' REPORT)**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
United States Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 1,479,995
TOTAL			<u>\$ 1,479,995</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1) The Grayson County Water District has the following loan balances at December 31, 2007. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Rural Development (10.760)	<u>\$ 1,350,000</u>
TOTAL	<u>\$ 1,350,000</u>

2) This schedule includes the federal awards activity of the December 31, 2007 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

3) No awards were provided to sub-recipients.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Grayson County Water District
Leitchfield, KY 42754

We have audited the financial statements of the business-type activities of Grayson County Water District, as of and for the year ended December 31, 2007, which comprise the Grayson County Water District's basic financial statements and have issued our report thereon dated March 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grayson County Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Grayson County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Grayson County Water District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Grayson County Water District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by Grayson County Water District's internal control. We consider the deficiency described as item 07-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Grayson County Water District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the significant deficiency identified as item 07-1 to be a material weakness.

The District is required to prepare financial statements in accordance with generally accepted accounting principles. Accounting personnel responsible for the accounting and reporting function lacks the professional training and professional experience to apply generally accepted accounting principles in preparing the District's financial statements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Grayson County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, others within the organization, Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Buckles, Travis & Sloan
Certified Public Accountants
March 19, 2008

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Board of Commissioners
Grayson County Water District
Leitchfield, KY 42754

Compliance

We have audited the compliance of the Grayson County Water District, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2007. The Grayson County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Grayson County Water District's management. Our responsibility is to express an opinion on the Grayson County Water District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Grayson County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Grayson County Water District's compliance with those requirements.

In our opinion, Grayson County Water District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the Grayson County Water District, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Grayson County Water District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Grayson County Water District's internal control over compliance.

A control deficiency in the entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Grayson County Water District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Grayson County Water District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Buckles, Travis & Sloan
Certified Public Accountants
March 19, 2008

**GRAYSON COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Grayson County Water District.
2. A significant deficiency in internal control over financial reporting was reported.
3. No instances of noncompliance material to the financial statements of the Grayson County Water District were disclosed during our audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Grayson County Water District expresses an unqualified opinion.
6. The audit did not disclose findings required to be reported by OMB Circular A-133.
7. The programs tested as major programs include:

Program	CFDA No.
United States Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Grayson County Water District was determined to be a low-risk auditee.

(CONTINUED)

**GRAYSON COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2007**

B. FINDINGS AND QUESTIONED COSTS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

Reference Number	Finding	Questioned Costs
07-1	<p>Condition: Accounting personnel responsible for the accounting and reporting function lacks the professional training and professional experience to apply generally accepted accounting principles in preparing the District's financial statements.</p> <p>Criteria: Deficiencies in the design of controls include the above mentioned condition.</p> <p>Effect: The District's controls are deficient due to accounting personnel responsible for the accounting and reporting function lacking the professional training and professional experience to apply generally accepted accounting principles in preparing the District's financial statements.</p> <p>Cause: The District has chosen not to have the expertise to properly prepare their financial statements and disclosures.</p> <p>Recommendation: The District should consider obtaining the professional training and expertise to apply generally accepted accounting principles in preparing the District's financial statements.</p> <p>Response: The District is considering obtaining the professional training and expertise to apply generally accepted accounting principles in preparing the District's financial statements.</p>	None

(CONTINUED)